

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL MEMORANDUM

SB 621 – HB 1525

June 8, 2009

SUMMARY OF AMENDMENTS (006957, 009580): Amendment 006957 deletes all language after the enacting clause of the original bill. Requires the Select Oversight Committee on Education to study the authorization of cyber-based charter schools and to hold meeting(s) on this topic within the normal course of business. Requires the Office of Research and Education Accountability (OREA) to research cyber-based charter schools and give a written report to the Committee. The Committee shall make a report on cyber-based charter schools to the Education Committees of the General Assembly by January 15, 2010. Amendment 009580 adds new language to the current bill as amended. Increases from five to ten, the number of years that a charter school is initially chartered and a charter renewed. Authorizes any student on free or reduced price lunch and who is enrolled in a local education agency (LEA) with an average daily membership of 12,000 or greater to be eligible to attend a charter school. Deletes one population of eligible charter school student; students in kindergarten through third grade who are eligible for free and reduced price lunch; who may be enrolled no earlier than August 1. Requires that converted regular public schools shall not be counted toward the current charter school cap (50). Requires conversion charter schools to only enroll students who are assigned to or were previously enrolled in, a school failing to make adequate yearly progress (AYP). Prohibits LEAs from charging charter school administrative fees unless specifically agreed to within the charter agreement. Deletes current grade-specific priority status that is given to students on free or reduced price lunch. Requires LEAs to give charter schools all applicable federal and state funding. Requires the Department of Education (DOE) to set up a separate fund for the capital component in order to allocate capital outlay expenditures directly to the charter school as dictated by the charter school ADM. Requires LEAs to pay the normal local match for the capital outlay component. Requires a charter school to include in its renewal application student standardized test scores and financial statements and performance audits from the last nine years. Requires the DOE to develop guidelines governing the charter school renewal process and to disseminate the best practices of charter schools to all public schools.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – If a cyber-based charter school is approved, there will be a shift in funds from the local education agency to the charter school. Such a shift in funds would be dependent upon the number of students currently attending a regular K-12 public school that would transfer to a charter school.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Increase State Expenditures – Not Significant

Other Fiscal Impact – More regular public school students not eligible under current guidelines will be eligible to transfer into a public charter school. BEP money follows the student. BEP funds will shift from local education agencies (LEAs) to public charter schools in an amount dependent upon the number of students choosing to enroll in a charter school, the capacity of the charter school, and the number of open enrollment slots.

Charter schools are currently funded on a per-pupil basis. The BEP is funded on an average daily membership (ADM) basis. The amount of money that the BEP generates and the LEA matches is less than the per pupil expenditure that is given to the public charter school.

The average difference between the LEA amount that would be funded on a per pupil basis and what the BEP funds per ADM for 19 LEAs that are close to or above 12,000 ADM is \$1,700. Local governments will be required to fund the difference. If two percent of the total ADM of those LEAs (17) that do not currently contain charter schools transfer into a new charter school, the increase in local expenditures will be approximately \$12,976,900. There will also be a net increase in local expenditures as students transfer into a charter school for fixed LEA regular operational costs for building maintenance, electricity, etc. These costs are estimated to exceed \$1,000,000. Therefore the total increase in local expenditures statewide is expected to exceed \$14,000,000.*

The fixed cost increase is a net of any savings from fewer students in regular public schools.

According to the Tennessee Department of Education, the state will receive some competitive American Recovery and Reinvestment Act (ARRA) grant funding without regard to whether this bill or other charter school legislation is enacted. The criteria for these grants have not been released and application for the grants has not been made. It is unknown whether passage of this amendment or other charter school legislation will have any impact on the amount of funding received by the state for these grants.

Assumption applied to amendments:

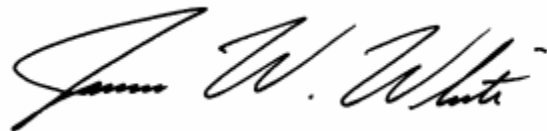
- Fiscal impact for original language of the bill requiring LEAs to include a plan to help parents plan for higher education opportunities for students in LEA parent participation plans remains minimal.
- Charter schools are funded on a per pupil basis. The BEP formula is based upon a system-level average daily membership (ADM). Because the BEP funds based upon a step system, an LEA's student population must increase in the increments mandated within the BEP formula in order for the LEA to receive additional funding.
- Charter school students are counted for the purposes of ADM, therefore money shifting from the LEA to the public charter school is not replaced by the BEP. Certain fixed costs associated with a school system will continue to be funded.
- The exact amount of replacement money is unknown and is dependent upon the annual number of charter school students, the amount of per pupil expenditure received by the charter school, the ADM of the district in a given year, and whether or not the LEA is providing transportation and capital outlay expenditures for charter schools students.
- There may be a decrease in LEA expenditures as a result of students leaving the regular system, if the LEA is able to reduce fixed costs. This amount is not able to be quantified.
- Currently, LEAs are making up the cost difference between the per pupil expenditures that are transferring and the cost to fund a regular public school classroom. The average increase in local expenditures for systems with an ADM at or close to 12,000 ADM and that do not have a charter school is \$1,691.46 per ADM.
- Currently, the average number of ADM in charter schools versus the total system-wide ADM is two percent. Two percent of eligible systems under this bill will be approximately 7,672. Total increase in cost for these systems if two percent of their ADM transferred to a charter school is estimated to be \$12,976,881 ($\$1,691.46 \times 7,672$).
- Fixed LEA operational costs will be maintained. Such costs are not able to reasonably quantified but are estimated to exceed \$1,000,000.

- Total net increase in local expenditures will exceed \$14,000,000.
- The SBOE has the authority to override an LEA veto of a charter school application. For this reason, increases in local expenditures are not permissive.
- Currently planned charter school grade expansions and new charter school openings for the 2009-10 school year will take place in the absence of this bill.
- Making more regular K-12 public school students eligible to attend charter schools will not increase the number of available slots.
- Removing the cap on the number of charter schools that may be opened will not cause more charter schools to open or change application requirements until the current cap of 50 schools is reached.
- The basic charter school application process will not change, though a new authorization body would be eligible to review applications.
- Though charter schools must currently apply for a charter amendment from the governing LEA to increase enrollment capacity, a charter amendment is not required to lower enrollment capacity. Therefore, a charter school's capacity could be limited by the teaching structure of the school instead of physical space available.
- There are currently 16 charter schools in Tennessee.
- Any increase in state expenditures is estimated to be not significant.

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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